



BILLING CODE 8011-01P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-94774; File No. SR-NASDAQ-2022-032]

Self-Regulatory Organizations; The Nasdaq Stock Market LLC; Notice of Filing and Immediate Effectiveness of Proposed Rule Change to Amend the Exchange's Transaction Fees at Equity 7, Section 118(a)

April 21, 2022

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (“Act”)¹, and Rule 19b-4 thereunder,² notice is hereby given that on April 12, 2022, The Nasdaq Stock Market LLC (“Nasdaq” or “Exchange”) filed with the Securities and Exchange Commission (“SEC” or “Commission”) the proposed rule change as described in Items I, II, and III, below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend the Exchange’s transaction fees at Equity 7, Section 118, as described further below.

The text of the proposed rule change is available on the Exchange’s Website at <https://listingcenter.nasdaq.com/rulebook/nasdaq/rules>, at the principal office of the Exchange, and at the Commission’s Public Reference Room.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for,

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

the Proposed Rule Change

In its filing with the Commission, the Exchange included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The Exchange has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to amend the Exchange's schedule of fees, at Equity 7, Section 118(a), to incent members to grow the extent to which they participate in Nasdaq's routing strategy for Designated Retail Orders ("RFTY").

RFTY is an order routing option designed to enhance execution quality and benefit retail investors by providing price improvement opportunities to Designated Retail Orders ("DROs").³ As set forth in Equity 7, Section 118(a), for securities in each Tape, the Exchange presently charges a \$0.0030 per share executed fee to a member for shares

³ See Securities Exchange Act Release No. 34-75987 (September 25, 2015), 80 FR 59210 (October 1, 2015) (SR-NASDAQ-2015-112). A DRO is an agency or riskless principal order that meets the criteria of FINRA Rule 5320.03 and that originates from a natural person and is submitted to Nasdaq by a member that designates it pursuant to this rule, provided that no change is made to the terms of the order with respect to price or side of market and the order does not originate from a trading algorithm or any other computerized methodology. An order from a "natural person" can include orders on behalf of accounts that are held in a corporate legal form -- such as an Individual Retirement Account, Corporation, or a Limited Liability Company -- that has been established for the benefit of an individual or group of related family members, provided that the order is submitted by an individual. Members must submit a signed written attestation, in a form prescribed by Nasdaq, that they have implemented policies and procedures that are reasonably designed to ensure that substantially all orders designated by the member as "Designated Retail Orders" comply with these requirements.

executed above 4 million shares during the month for RFTY orders that remove liquidity from the Nasdaq Market Center or that execute in a venue with a protected quotation under Regulation NMS other than the Nasdaq Market Center. For purposes of calculating the 4 million share threshold described above and assessing the charge set forth herein, the Exchange excludes RFTY orders that execute at taker-maker venues. The Exchange charges no fee per share executed to a member for shares executed up to 4 million shares during the month for RFTY orders that remove liquidity from the Nasdaq Market Center or that execute in a venue with a protected quotation under Regulation NMS.

In adopting the existing fee structure for RFTY, the Exchange intended to provide incentives for members to adopt RFTY while also allowing the Exchange to mitigate the costs it incurs when RFTY routes large volumes of orders to venues that charge access fees.⁴ Although the Exchange continues to believe that the RFTY fee structure is appropriate, it also recognizes that the specter of incurring fees inhibits new or existing light users of RFTY from increasing their use of this strategy, even as the Exchange works to augment the value that RFTY offers. The Exchange now proposes to amend the RFTY fee structure to provide a new incentive for new or existing light RFTY users to grow the extent of their use of RFTY during the month.⁵ The Exchange intends for this new incentive to be temporary,⁶ and hopes that even after it no longer applies, participants that benefited from it will continue to make

⁴ See Securities Exchange Act Release No. 34-90164 (October 13, 2020), 85 FR 66379 (October 19, 2020) (SR-NASDAQ-2020-067).

⁵ The proposed amendment is applicable both to existing RFTY users as well as to new users that exceed 4 million shares executed using RFTY during regular market hours during a month. Since new users would, by definition, lack March 2022 baseline RFTY volume against which to measure subsequent growth, such new users would meet the growth requirement through whatever volume of RFTY shares they execute during regular market hours during the first month of use.

⁶ The Exchange has yet to propose a date for sunseting this incentive; it will do so in a future rule filing.

significant use of RFTY, notwithstanding the associated fees, in recognition of the value it provides to them and their customers.

Specifically, the Exchange proposes to amend Equity 7, Section 118(a) to state that the Exchange will charge no fee per share executed during regular market hours to a member that executes orders using RFTY, when the member exceeds the 4 million share executed threshold for RFTY orders described above, if the member also grows the volume of its shares executed using RFTY during regular market hours during the month by at least 100 percent relative to a baseline month of March 2022.⁷ Again, the Exchange intends for this amendment to reward RFTY users that grow substantially the extent of their use of the RFTY strategy during regular market hours.⁸

The Exchange notes that those participants that are dissatisfied with the proposed amendment to the RFTY fee schedule are free to shift their order flow to competing venues that offer more favorable terms for routing and executing retail orders. Such participants may also refrain from using RFTY or adjust their use of RFTY to avoid incurring execution fees.

⁷ The proposal also corrects typographical errors in the Rule whereby the Exchange, in several instances, mistakenly refers to RFTY as “RTFY.” The Exchange anticipates submitting another rule filing in the near future to make the same corrections to other instances in typographical error in the Rulebook.

⁸ The Exchange proposes to apply this incentive to members with shares executed using RFTY during regular market hours, and to members that grow shares executed using RFTY during regular market hours, because the Exchange believes that the full functionality and value of RFTY will be most apparent to members during regular market hours, when market makers and liquidity providers are available to execute orders. The Exchange wishes to target use and growth of RFTY during that time period.

2. Statutory Basis

The Exchange believes that its proposal is consistent with Section 6(b) of the Act,⁹ in general, and furthers the objectives of Sections 6(b)(4) and 6(b)(5) of the Act,¹⁰ in particular, in that it provides for the equitable allocation of reasonable dues, fees and other charges among members and issuers and other persons using any facility, and is not designed to permit unfair discrimination between customers, issuers, brokers, or dealers. The proposal is also consistent with Section 11A of the Act relating to the establishment of the national market system for securities.

The Proposal is Reasonable

The Exchange's proposal is reasonable in several respects. As a threshold matter, the Exchange is subject to significant competitive forces in the market for equity securities transaction services that constrain its pricing determinations in that market. The fact that this market is competitive has long been recognized by the courts. In NetCoalition v. Securities and Exchange Commission, the D.C. Circuit stated as follows: “[n]o one disputes that competition for order flow is ‘fierce.’ ... As the SEC explained, ‘[i]n the U.S. national market system, buyers and sellers of securities, and the broker-dealers that act as their order-routing agents, have a wide range of choices of where to route orders for execution’; [and] ‘no exchange can afford to take its market share percentages for granted’ because ‘no exchange possesses a monopoly, regulatory or otherwise, in the execution of order flow from broker dealers’”¹¹

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(4) and (5).

¹¹ NetCoalition v. SEC, 615 F.3d 525, 539 (D.C. Cir. 2010) (quoting Securities Exchange Act Release No. 59039 (December 2, 2008), 73 FR 74770, 74782-83 (December 9, 2008) (SR-NYSEArca-2006-21)).

The Commission and the courts have repeatedly expressed their preference for competition over regulatory intervention in determining prices, products, and services in the securities markets. In Regulation NMS, while adopting a series of steps to improve the current market model, the Commission highlighted the importance of market forces in determining prices and SRO revenues and, also, recognized that current regulation of the market system “has been remarkably successful in promoting market competition in its broader forms that are most important to investors and listed companies.”¹²

Numerous indicia demonstrate the competitive nature of this market. For example, clear substitutes to the Exchange exist in the market for equity security transaction services. The Exchange is only one of several equity venues to which market participants may direct their order flow. Competing equity exchanges offer similar tiered pricing structures to that of the Exchange, including schedules of rebates and fees that apply based upon members achieving certain volume thresholds. The Exchange is also subject to intense competition for retail order flow with off-exchange competitors, including wholesale market makers.

The Exchange believes its proposed amendment to the RFTY fee schedule is a reasonable attempt to incent new and existing RFTY users to grow the extent of their usage substantially. Under the proposed rule change, RFTY users that grow their volumes of RFTY shares executed during regular market hours during the month by at least 100 percent relative to March 2022 will not incur fees for executing their orders using RFTY during

¹² Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496, 37499 (June 29, 2005) (“Regulation NMS Adopting Release”).

regular market hours that [sic] exceed 4 million shares that month.¹³ The Exchange notes that it employs similar growth programs in other contexts for similar purposes.¹⁴

The Exchange notes that those participants that are dissatisfied with the proposed amendment to the RFTY fee schedule are free to shift their order flow to competing venues that offer more favorable terms for routing and executing retail orders. Such participants may also refrain from using RFTY or adjust their use of RFTY to avoid incurring execution fees.

The Proposal is an Equitable Allocation of Fees and is not Unfairly Discriminatory

The Exchange believes its proposal will allocate its charges fairly among its market participants and is not unfairly discriminatory.

The Exchange believes that it is an equitable allocation and not unfairly discriminatory to continue to charge a transaction fee to certain participants that execute more than 4 million shares using RFTY during regular market hours during the month, while charging no fees to other participants that execute similar volumes using RFTY, because in the latter case, the Exchange's decision to charge no fees during regular market hours is a reward to participants that double the extent of the share volume they execute using RFTY

¹³ As noted above, the Exchange believes it is reasonable to apply this incentive to members with shares executed using RFTY during regular market hours, and to members that grow shares executed using RFTY during regular market hours, because the Exchange believes that the full functionality and value of RFTY will be most apparent to members during regular market hours, when market makers and liquidity providers are available to execute orders. The Exchange wishes to target use and growth of RFTY during that time period.

¹⁴ See, e.g., Equity 4, Section 114(j) (Nasdaq Growth program), Equity 7, Section 118(a) (providing a credit to members that, among other things, increase the extent of their average daily volumes of Midpoint Extended Life Orders by 100% or more during the month relative to June 2021).

during regular market hours during the month, relative to a baseline month of March 2022.¹⁵

As noted above, the Exchange expects this incentive to be a temporary measure to boost usage in RFTY and to compete for retail order flow. As also discussed earlier, the Exchange employs similar growth programs in other contexts for similar purposes.

The Exchange notes that those participants that are dissatisfied with the proposed amendment to the RFTY fee schedule are free to shift their order flow to competing venues that offer more favorable terms for routing and executing retail orders. Such participants may also refrain from using RFTY or adjust their use of RFTY to avoid incurring execution fees.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

Intramarket Competition

The Exchange does not believe that its proposal will inappropriately burden any category of market participant. Although under the proposal, the Exchange will charge a transaction fee to certain participants that execute more than 4 million shares using RFTY during regular market hours during the month, and charge no fees to other participants that execute similar volumes using RFTY, the Exchange believes this is appropriate because in the latter case, the Exchange's decision to charge no fees is a reward to participants that double the extent of the share volume they execute using RFTY during regular market hours during the month, relative a baseline month of March 2022. As noted above, the Exchange expects this incentive to be a temporary measure to boost usage in RFTY and to compete for

¹⁵ As noted above, the proposed incentive program is available both to new and existing RFTY users, although in practice, the Exchange expects that only existing users will qualify for it.

retail order flow. As also discussed earlier, the Exchange employs similar growth programs in other contexts for similar purposes.

Those participants that are dissatisfied with the proposed amendment to the RFTY fee schedule are free to shift their order flow to competing venues that offer more favorable terms for routing and executing retail orders. Such participants may also refrain from using RFTY or adjust their use of RFTY to avoid incurring execution fees.

Intermarket Competition

In terms of inter-market competition, the Exchange notes that it operates in a highly competitive market in which market participants can readily favor competing venues if they deem fee levels at a particular venue to be excessive, or rebate opportunities available at other venues to be more favorable. In such an environment, the Exchange must continually adjust its credits and fees to remain competitive with other exchanges and with alternative trading systems that have been exempted from compliance with the statutory standards applicable to exchanges. Because competitors are free to modify their own credits and fees in response, and because market participants may readily adjust their order routing practices, the Exchange believes that the degree to which credit or fee changes in this market may impose any burden on competition is extremely limited. The proposal is reflective of this competition.

Even as one of the largest U.S. equities exchanges by volume, the Exchange has less than 20% market share, which in most markets could hardly be categorized as having enough market power to burden competition. Moreover, as noted above, price competition between exchanges is fierce, with liquidity and market share moving freely between exchanges in reaction to fee and credit changes. This is in addition to free flow of order flow to and among off-exchange venues, which comprises upwards of 50% of industry volume.

In sum, if the change proposed herein is unattractive to market participants, it is likely that the Exchange will lose market share as a result. Accordingly, the Exchange does not believe that the proposed change will impair the ability of members or competing order execution venues to maintain their competitive standing in the financial markets.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

No written comments were either solicited or received.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

The foregoing rule change has become effective pursuant to Section 19(b)(3)(A)(ii) of the Act.¹⁶

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is: (i) necessary or appropriate in the public interest; (ii) for the protection of investors; or (iii) otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

IV. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act.

Comments may be submitted by any of the following methods:

Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>);
- or

¹⁶ 15 U.S.C. 78s(b)(3)(A)(ii).

- Send an e-mail to rule-comments@sec.gov. Please include File Number SR-NASDAQ-2022-032 on the subject line.

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-NASDAQ-2022-032. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that you wish to make available publicly. All submissions should refer to File Number SR-NASDAQ-2022-032 and should be submitted on or before **[INSERT DATE 21 DAYS AFTER DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.¹⁷

J. Matthew DeLesDernier,
Assistant Secretary.

[FR Doc. 2022-08912 Filed: 4/26/2022 8:45 am; Publication Date: 4/27/2022]

¹⁷ 17 CFR 200.30-3(a)(12).